

**REPORT OF THE AUDIT OF
LEWIS COUNTY
CLERK**

**For The Year Ended
December 31, 2007**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132
www.rossepas.com

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LEWIS COUNTY CLERK

December 30, 2007

Ross & Company, PLLC has completed the audit of the Lewis County Clerk for year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Revenues increased by \$420,802 from prior year and expenditures increased by \$382,437 from prior year resulting in \$51,678 of excess fees for the County.

Report Comments:

- All Deposits Were Not Made Intact Daily And Daily Checkout Sheets And Receipts Ledger Postings Did Not Agree To Daily Bank Deposits
- The County Clerk Deposited \$15,653 Of Unidentified Cash Receipts After Year-End
- Daily Checkout Sheets Should Be Complete And Accurate
- The Clerk's Office Should Improve Internal Control Procedures
- The Clerk's Expense Allowance Should Be Disbursed In Twelve Equal Monthly Payments
- The Clerk Should Prepare Budget Amendments
- KRS 66.480 Recommends That Public Funds Be Deposited Into Interest Bearing Banking Institutions

Deposits:

The County Clerk's deposits were uninsured and uncollateralized by bank securities as follows:

- \$38,317 unsecured and uncollateralized as of July 5, 2007.

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The Honorable Steve Applegate, Lewis County Judge/Executive
Honorable Shirley Hinton, Lewis County Clerk
Members of the Lewis County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees – regulatory basis of the County Clerk of Lewis County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2008 on our consideration of the Lewis County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comment:

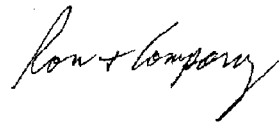
- All Deposits Were Not Made Intact Daily And Daily Checkout Sheets And Receipts Ledger Postings Did Not Agree To Daily Bank Deposits
- The County Clerk Deposited \$15,653 Of Unidentified Cash Receipts After Year-End

The Honorable Steve Applegate, Lewis County Judge/Executive
Honorable Shirley Hinton, Lewis County Clerk
Members of the Lewis County Fiscal Court

- Daily Checkout Sheets Should Be Complete And Accurate
- The Clerk's Office Should Improve Internal Control Procedures
- The Clerk's Expense Allowance Should Be Disbursed In Twelve Equal Monthly Payments
- The Clerk Should Prepare Budget Amendments
- KRS 66.480 Recommends That Public Funds Be Deposited Into Interest Bearing Banking Institutions

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Lewis County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC
Certified Public Accountants

October 20, 2008

LEWIS COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS
December 31, 2007

LEWIS COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

State Fees For Services	\$	2,490
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Fiscal Court		4,669
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	417,187
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Usage Tax		627,065
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Tangible Personal Property Tax		767,858
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Other-

Fish and Game Licenses		7,718
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Marriage Licenses		3,728
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Deed Transfer Tax		42,521
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Delinquent Tax		279,889	2,145,966

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		16,787
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Real Estate Mortgages		19,403
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Chattel Mortgages and Financing Statements		39,534
--	--	--------

All Other Recordings		19,702
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Charges for Other Services-

Candidate Filing Fees		40
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Late Filing Fees		276
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Copywork		2,459	98,201

Other:

Miscellaneous		334
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Notary		570	904

Total Revenues			2,252,230
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The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY
SHIRLEY HINTON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2007
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 296,532	
Usage Tax	608,234	
Tangible Personal Property Tax	282,693	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	7,521	
Marriage Licenses	2,780	
Delinquent Tax	32,543	
Legal Process Tax	10,879	\$ 1,241,182

Payments to Fiscal Court:

Tangible Personal Property Tax	81,621	
Delinquent Tax	49,342	
Deed Transfer Tax	40,395	171,358

Payments to Other Districts:

Tangible Personal Property Tax	372,845	
Delinquent Tax	138,492	
Miscellaneous Tax Bills	2,546	513,883

Payments to Sheriff

2,642

Payments to County Attorney

40,215

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	111,378	
Deputy Bond	230	
Clerk's Bond	213	

Contracted Services-

Advertising	1,179	
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Materials and Supplies-

Office Supplies	23,528	
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Other Charges-

Refunds	4,416	
Dues	450	
Postage	4,175	
Housing Trust Fund	10,986	156,555

Total Expenditures

\$ 2,125,835

The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY
SHIRLEY HINTON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2007
(Continued)

Net Revenues	\$ 126,395
Less: Statutory Maximum	<u>71,118</u>
Excess Fees	55,277
Less Expense Allowance	<u>3,600</u>
Excess Fees Due County	51,677
Payments to Fiscal Court	
March 18, 2008	<u>(45,000)</u>
Add Unallowed Payments To Fiscal Court	
From The 2008 Clerk Fee Account	<u>15,653</u>
Balance Due Fiscal Court at Completion of Audit *	<u><u>\$ 22,330</u></u>

* Note: The County Clerk made payments to the County Treasurer of \$6,549 and \$128 on April 12, 2008 and August 1, 2008 respectively, leaving a balance due of \$15,653 at October 20, 2008.

LEWIS COUNTY CLERK
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan public retirement system that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. The report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Rd, Frankfort, Kentucky 40621-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of July 5, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former County Clerk's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured \$38,317

Note 4. Grant

In 2006, the County Clerk was awarded a microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$9,457, the money was deposited into a separate grant account. There was \$8,579 expended during the year. The remaining balance as of December 31, 2007 was \$878.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Honorable Shirley Hinton, Lewis County Clerk
Members of the Lewis County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Lewis County Clerk for the year ended December 31, 2007, and have issued our report thereon dated October 20, 2008. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lewis County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Lewis County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lewis County Clerk's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies below that are described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- All Deposits Were Not Made Intact Daily And Daily Checkout Sheets And Receipts Ledger Postings Did Not Agree To Daily Bank Deposits
- The County Clerk Deposited \$15,653 Of Unidentified Cash Receipts After Year-End
- Daily Checkout Sheets Should Be Complete And Accurate
- The Clerk's Office Should Improve Internal Control Procedures
- The Clerk Should Prepare Budget Amendments

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified the below to be deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

- All Deposits Were Not Made Intact Daily And Daily Checkout Sheets And Receipts Ledger Postings Did Not Agree To Daily Bank Deposits
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Compliance And Other Matters

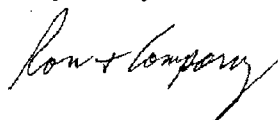
As part of obtaining reasonable assurance about whether the Lewis County Clerk's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two (2) instances of noncompliance or other matters that is required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Clerk's Expense Allowance Should Be Disbursed In Twelve Equal Monthly Payments
- All Deposits Were Not Made Intact Daily And Daily Checkout Sheets And Receipts Ledger Postings Did Not Agree To Daily Bank Deposits

The Lewis County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Lewis County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Ross & Company, PLLC
Certified Public Accountants

October 20, 2008

COMMENTS AND RECOMMENDATIONS

LEWIS COUNTY
SHIRLEY HINTON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

All Deposits Were Not Made Intact Daily And Daily Checkout Sheets And Receipts Ledger Postings Did Not Agree To Daily Bank Deposits

During the course of the audit, it was found that deposits being made into the 2007 Clerk's bank account did not match that of the receipts ledger. During the months of January, February, and March, the deposits were short by \$4,202, \$3,884, and \$7,227 respectively, totaling \$15,312 with the shortage for the year totaling \$15,653. In addition, the current year beginning January 1, 2008 deposits were tested up through June 30, 2008. It was determined that as of June 30, 2008, the 2008 account was short \$19,836 as well.

The bank reconciliation as of December 31, 2008, as well as the County's 4th Quarter Report was misstated by showing \$990 of outstanding deposits and receivables. The audited outstanding deposits were found to be \$990 and outstanding receivables were found to be \$15,653. The amount that was determined to be receivables according to bank statements was found to be the majority of the money that was subsequently missing from the 2008 Fee Account that appears to have been used to make up the amount that the 2007 account was short on bank deposits.

The County Clerk should only use current year official receipts for current year official expenditures in order to clearly identify the intent of the receipt. We recommend that the County Clerk appropriately account for all receipts. This comment will be referred to the proper authorities for further review.

County Clerk's Response: Accurate bank reconciliations will be established, no previous year money will be taken from current year.

The County Clerk Deposited \$15,653 Of Unidentified Cash Receipts After Year-End

In the months of March 2008 and April 2008, deposits were made into the 2007 Fee Audit of which the year ended on December 31, 2007. After investigation of these unusual deposits, it was found that these deposits consisted of mostly cash with the exception of two. These two deposits included a check written from the 2008 Fee Account in the amount of \$6,500 and a personal check from a taxpayer of \$24 for the payment of vehicle taxes for the 2008 year. Also, the memo descriptions on the checks described in the previous sentence were falsely notated as Clerk's deposit and IRS deposit. Each calendar year of a Clerk's Office stands alone, monies from a subsequent year is not permitted to be used to make up a shortfall in a prior year. Therefore, as a result, the Fiscal Court should reimburse \$15,653 to the 2008 Clerk Fee Account. It is the responsibility of the Clerk to refund the \$15,653 from personal funds to be paid back over to the Fiscal Court for the remaining excess fees for the 2007 audit year. In addition, all deposits should have the correct description of what they actually are for notated on the deposit slip.

This comment will be referred to the proper authorities for further review.

County Clerk's Response: A Check from Shirley Hinton was issued on 9-17-08 in the amount of \$15,500 back into the 2008 account. Also a check from Shirley Hinton for \$153 issued 10-20-08.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Auditor's Reply: Auditors received copies of the checks deposited, however, it should be noted that there were not any auditing procedures performed in regards to the receipt of the above mentioned money.

Daily Checkout Sheets Should Be Complete And Accurate

During testing procedures, it was found that the Clerk's daily checkout sheets are not accurate. There are memos present, numbers that have no description as to what they are, and shortages and overages that don't have explanations or documented that the difference were investigated. We recommend that daily checkout sheets be properly reconciled to show the exact amount of money taken in for the day, the amount of money that remained in the register for startup the next day, detailed description of any numbers with descriptions, and any differences investigated and resolved.

County Clerk's Response: Will properly reconcile according to the above.

The Clerk's Office Should Improve Internal Control Procedures

The Clerk's Office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions the Clerk's Office has limited options for establishing an adequate segregation of duties. We recommend the following procedures be implemented to strengthen the internal control weaknesses:

- An independent person should list all receipts and agree them back to the clerk's receipts ledger. An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. The person by initialing the bank statement can document this.
- An independent person should review the clerk's bank reconciliations for accuracy and agree deposits back to daily checkout sheets. The person completing this review should initial the bank reconciliation to document that a review was performed.
- An employee independent of check writing should compare checks and invoices for accuracy.
- To have better internal controls, it is considered a best practice to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals.
- Every employee collecting money should have their own cash drawers, surprise counts should be performed periodically, and any differences or abnormalities should be investigated.
- The Budget should be reviewed periodically in order to monitor expenditures and amendments to the budget should be performed when necessary, etc.

We recommend the Clerk's office implement these procedures. These procedures will assist in obtaining proper internal controls.

County Clerk's Response: Better internal control being implemented; own cash drawers not available right now, we have a cash register- will comply; budget amendments being prepared for current year. Two deputies with clerk checking bank deposits, etc., and initial.

The Clerk's Expense Allowance Should Be Disbursed In Twelve Equal Monthly Payments

The Clerk was paid the entire expense allowance in two pay periods instead over the period of twelve months as required by KRS 64.017 and KRS 64.710. According to KRS 64.017 and KRS

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

64.710 the clerk is to be disbursed twelve equal monthly payments of \$300 each totaling \$3,600 for the year. We recommend that the Clerk follow KRS 64.017 and KRS 64.710.

County Clerk's Response: Following instructions immediately.

The Clerk Should Prepare Budget Amendments

The Clerk budgeted revenues and expenditures of \$1,800,800 and \$1,772,920 respectively. Actual revenues were \$2,252,229 and actual expenditures were \$2,200,653. We recommend the Clerk prepare budget amendments and obtain approval from the fiscal court when receipts and/or disbursements exceed the amount budgeted.

County Clerk's Response: Working on the above budget amendments.

KRS 66.480 Recommends That Public Funds Be Deposited Into Interest Bearing Banking Institutions

The Clerk's 2007 fee account was non-interest bearing. This is a situation that has occurred for multiple years and should be corrected. KRS 66.480 recommends that county officials deposit public funds into interest bearing accounts. By not deposited tax payer dollars in accounts which bear interest, the county and its constituents are not receiving the full benefit of their tax payer dollars. We recommend the Clerk deposit public funds in an interest-bearing account.

County Clerk's Response: Pledge securities being sought now.